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PROGRAMME BUDGET FOR THE BIENNIUM 1996-1997

Third report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General of 25 August 1997 (A/C.5/51/57) on the issue of additional regular budget expenditures, including those relating to the maintenance of peace and security, inflation and currency fluctuation. The Secretary-General's report was prepared in response to the request of the General Assembly in its resolution 51/220 of 18 December 1996, for a comprehensive policy paper that would examine all issues related to the question of all additional expenditures referred to in paragraphs 10 and 11 of annex I to General Assembly resolution 41/213 of 19 December 1986 with a view to finding a comprehensive solution to such questions. During its consideration of the report, the Advisory Committee met with representatives of the Secretary-General, who provided additional information.

Additional expenditures relating to the maintenance of peace and security

2. In paragraphs 3 to 6 of his report (A/C.5/51/57), the Secretary-General deals with the question of additional expenditures relating to the maintenance of peace and security. The Advisory Committee points out that additional requirements relating to the maintenance of peace and security that are funded from the regular budget are currently treated through the mechanism of additional appropriations outside the scope of the contingency fund, in accordance with paragraph 11, annex I, of General Assembly resolution 41/213.

3. As can be seen from the table in paragraph 4 of the report, funds appropriated during the period from 1990 to 1997 for mandates relating to the maintenance of peace and security were relinquished in the context of the proposed programme budget, only to be sought again as additional appropriations in the context of revised estimates or statements of programme budget implications when the mandate was renewed or extended. The Advisory Committee

notes that additional requirements for the maintenance of peace and security have increased from $22.5 million during the biennium 1990-1991 to $57.9 million during the biennium 1996-1997.

4. As indicated in paragraph 6 of the Secretary-General's report of 14 August 1996 on the budget outline for the biennium 1998-1999 (A/51/289), a total provision of $85 million was included in the budget outline for the maintenance of peace and security in 1998-1999 to obviate the need for seeking additional appropriations as and when mandates of special missions were renewed or created in the course of the biennium. The amount included some $15 million for special missions, based on 1996-1997 appropriations. The General Assembly, in paragraph 7 of its resolution 51/220 on the budget outline for the biennium 1998-1999, decided not to include a provision for special missions for which there were no legislative mandates and deleted $70 million of the Secretary-General's request.

5. The Advisory Committee was informed by the representatives of the Secretary-General that even before the end of its current session, the Secretariat would submit for consideration by the General Assembly revised estimates of programme budget implications for a total of $80 to $90 million for the biennium 1998-1999 in connection with the operation of two special missions (the United Nations Verification Mission in Guatemala (MINUGUA) and Afghanistan) the mandates of which are expected to be renewed by the Assembly shortly. In addition, in his report of 25 November 1997 (A/C.5/52/24), the Secretary-General has requested an additional appropriation of $9.3 million (net of staff assessment) for the financing of five special missions during the biennium 1998-1999.

6. In paragraph 6 of his report of 25 August 1997 (A/C.5/51/57), the Secretary-General concludes that "biennium after biennium, there is a need for resources for such mandates. Consequently, it is not only desirable but prudent to make provision for such mandates up front". Accordingly, the Secretary-General offers the following two alternatives for making provisions for such mandates up front:

(a) To include a one-line provision in the budget outline and, subsequently, in the proposed programme budget. That amount would then be appropriated, but its utilization would be subject to individual legislative mandates and approval by the General Assembly as and when it approved or renewed such mandates;

(b) To modify the contingency fund to include mandates relating to peace and security.

7. The first alternative appears more suitable to the Secretary-General, since it would "provide for appropriations at the outset and obviate the need for additional appropriations in connection with the establishment or renewal of mandates" (ibid., para. 6). The Advisory Committee agrees with the Secretary-General, although given the unpredictable nature of special missions it points out that such an arrangement may not completely obviate the need for additional appropriations. Accordingly, the Advisory Committee recommends that the Secretary-General make provision in the outline for expenditure for missions

related to peace and security expected to be extended or approved during the course of the biennium. Such a provision would also be included in the proposed programme budget and would have to be explained and justified. Additional requirements would be dealt with in accordance with General Assembly resolution 41/213. If this view is endorsed by the Assembly, the Secretary-General should be requested to submit a technical proposal on the modalities for implementation. This technical report should examine, inter alia, the implication of budgeting and financing peace and security activities whose legislative mandate may be extended or approved in the course of the biennium in question. This should be submitted to the Assembly through the Advisory Committee by February 1998.

Additional expenditures deriving from inflation and currency fluctuation

8. In paragraphs 7 to 23 of his report (A/C.5/51/57), the Secretary-General provides background information on the question of additional expenditures deriving from inflation and currency fluctuation. The Advisory Committee points out that this question has been one of substantial interest for many years. The Committee's last extensive analysis of various aspects of additional expenditures deriving from inflation and currency fluctuation is reflected in its report of 9 December 1988 (A/43/929). The Committee points out that since the adoption of General Assembly resolution 41/213 no further decision has been taken by the Assembly to change existing procedures.

9. It is not clear to the Advisory Committee if the Secretary-General's conclusion in paragraph 8 of his report of 25 August 1997 (A/C.5/51/57) that "there has been no new development in terms of a solution" is based on a full analysis of developments taking place within the United Nations system.

10. The Advisory Committee points out that, in line with current budget procedure and methodology, provision is made in the Secretary-General's initial estimates for inflation in the biennium based on the assumptions at the time of the preparation of the estimates. The proposed programme budget is also based on assumptions with regards to currency rates that are expected to prevail in the forthcoming biennium. In accordance with existing procedures, these assumptions are updated by the Secretary-General prior to adoption of the budget by the General Assembly. The Advisory Committee recalls its observation in paragraph 23 of its report of 9 December 1988 (A/43/929) that no way had yet been found to control inflation or currency movements on a global basis or to predict those factors with absolute certainty. The effects of inflation and currency fluctuation could be minimized but the ways and means to do so were not without their attendant costs. At that time, the Committee had analysed various ideas of mitigating the impact of inflation and currency fluctuations, including "split" assessments, forward purchasing and the establishment of a reserve account, and observed that, given that there was an unavoidable cost to mitigating the effects of inflation and currency fluctuation, the Assembly might wish to consider a continuation of the present system whereby the estimate of requirements was adjusted annually on the basis of the latest forecast by the Secretary-General of inflation and exchange rates (ibid., para. 26).

11. At the same time, the Advisory Committee pointed out (ibid., para. 27) that, should the General Assembly decide to proceed with seeking a comprehensive

solution to the problem of all additional expenditures referred to in annex I, paragraph 10, of its resolution 41/213, the establishment of a reserve could be explored to cover additional requirements due to (a) currency fluctuation; (b) inflation in non-staff costs; and (c) statutory cost increases for staff. In paragraphs 28 to 30 of the report, the Advisory Committee set forth the principles for the operation of the reserve and observed that a complete set of procedures for the operation of the reserve and consequent changes to the United Nations Financial Regulations and Rules could be formulated by the Secretary-General and submitted for approval to the General Assembly at its forty-fourth session (para. 30).

12. In its resolution 43/214 of 21 December 1988, the General Assembly agreed to the concept of a reserve to cover additional requirements due to currency fluctuation, inflation in non-staff costs and statutory cost increases for staff, and requested the Secretary-General to formulate a set of procedures for the operation of the reserve fund. In response to that request, on 20 October 1989 the Secretary-General submitted a report on the establishment and operation of a reserve fund (A/44/665) in which he identified two possible ways to establish and fund, through assessed contributions, a reserve: either as a separate fund outside the programme budget or as a section within the programme budget.

13. The Advisory Committee recalls that in its related report of 16 November 1989 (A/44/729) it had expressed difficulty with the idea put forward by the Secretary-General of financing the fund from the outset through assessment, even before the need for recourse to it had been identified. The Committee had also pointed out that, on the basis of the proposal by the Secretary-General, Member States would not have, early in the budget process, a more precise idea of the final total amount to be paid than they had at that time and, in addition, they would have to pay in advance for requirements that might not materialize.

14. In paragraphs 27 and 28 of his report of 25 August 1997 (A/C.5/51/57), the Secretary-General outlines two possible courses of action to ensure greater predictability and to minimize, during any given biennium and to the extent possible, changes in the level of the programme budget resulting from currency fluctuation, inflation in non-staff costs and statutory cost increases for staff. The first alternative would be to absorb the costs of such increases, which, in view of the amounts involved, would lead to a significant erosion in the real volume of resources available in the programme budget. As can be seen from the table in paragraph 25 of the report, the changes in respect of inflation and currency fluctuation are quite significant: $193.2 million for the biennium 1994-1995 and $211.8 million for the biennium 1996-1997. The Advisory Committee shares the view of the Secretary-General that this alternative does not appear desirable. In this connection, the Committee notes that it asked the Secretariat for a breakdown of the increases and decreases attributable in recent bienniums to currency fluctuations, inflation in non-staff costs, and statutory increases for staff, respectively. Such a breakdown has been provided in the past (see A/44/665, para. 5), but was not received on this occasion. The Committee believes that this additional information is important and relevant and recommends that it be included in future reports on this subject by the Secretary-General. In addition, the

Committee requests information on the share of the United Nations budget disbursed in the principal currencies.

15. The second alternative would be the establishment of a reserve fund through assessed contributions as initially envisaged by the Secretary-General in his report to the General Assembly at its forty-fourth session (A/44/665). The Advisory Committee had already expressed its difficulty with advance assessments provided for under this alternative (see para. 13 above). The Committee points out that the report of the Secretary-General of 25 August 1997 (A/C.5/51/57) does not contain any essentially new information or proposals on additional expenditures resulting from currency fluctuations and inflation in respect of which the Advisory Committee had not commented in one form or another in the past.

16. The Advisory Committee points out that inflation and currency fluctuations have a considerable impact on expenditures and income in the United Nations budget. The Committee recalls its observation in paragraph X.28 of its first report on the proposed programme budget for the biennium 1998-1999 (A/52/7 (Chap. II, Part X)) that it was informed that if Member States were to pay their assessments in full and on time, the amount of interest earned could be increased by $25 million per year. The Advisory Committee is aware that the issue of timely payments of assessed contributions is considered by the General Assembly under the item entitled "Improving the financial situation of the Organization". The Committee trusts that its above views will be taken into account in that context.

17. The Advisory Committee concurs in the Secretary-General's conclusion that, under the circumstances, the current mechanism for dealing with inflation and currency fluctuation may still be the most appropriate. The Committee also requests that the Secretariat collect and maintain relevant data on inflation and currency fluctuations. The Committee trusts that every effort will be made to monitor developments, especially in the currency markets, with a view to minimizing the impact of fluctuations on the United Nations. For its part, the Advisory Committee intends to keep this matter under review and will follow up on system-wide developments in the context of fulfilling its responsibilities with regard to administrative and budgetary coordination with the specialized agencies and the International Atomic Energy Agency.